



Life Policy Dynamics, LLC™

Portfolio Management Services

## Life Settlement Market Analysis 2008

[www.lifepolicydynamics.com](http://www.lifepolicydynamics.com)

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## Message from the CEO

I am pleased to present our 3rd Annual Life Settlement Market Analysis. This report was created by Life Policy Dynamics with the cooperation of nearly two dozen market leaders as a service to our industry. This broad industry participation is a positive indication of greater transparency and collaboration. Thanks to their valuable support LPD was able to develop a truly robust, reliable and independent analysis of the life settlement marketplace.

LPD attained its data sample target of 1,000 individual life settlement transactions that closed and funded during 2008. The dataset includes \$2.34 billion in policy face value representing nearly 20% of the estimated \$11.8 billion life settlement marketplace during 2008. Within the 1,020 policy study sample, the life settlement market unlocked an average economic value of 20% (as a percentage of policy face amount) above the modest cash surrender value.

If that estimate of value creation is applied to an expected \$11.8 billion aggregate marketplace, then our secondary life insurance market will have helped create nearly \$2.316 billion of gross economic value for America's senior insureds.

It is easy to see why a life settlement transaction is attractive to senior insured consumers. Within the study data the average life settlement offer represents 24.5% of the death benefit. This policy economic value is a sharp contrast to the modest cash surrender value (average 4.1% of death benefit) if the policy is surrendered to a life insurance carrier.

We take great satisfaction in being a part of an industry that creates substantial economic value for America's senior insureds, while making the primary insurance market more valuable. Together, we enjoy the rare opportunity to *do well as an industry while doing good for senior insureds* - a winning combination for sustainable success.

We value your feedback regarding this important market research and please let me know if LPD can be of service to you. Working together we can make the life settlement industry more transparent and valuable for us all.

Very sincerely,



J. Mark Goode  
Chief Executive Officer  
Life Policy Dynamics, LLC

## About Life Policy Dynamics

Life Policy Dynamics, LLC

Portfolio Management Services

Life Policy Dynamics, LLC (LPD) provides end-to-end outsource servicing and consulting solutions for the secondary and premium finance life insurance markets. LPD provides portfolio management and premium optimization services to both investors and life settlement fund managers. We also provide independent policy valuations for life insurance agents and life settlement brokers. LPD offers loan qualification services for premium finance originators, as well as collateral management and loan servicing for lending institutions. LPD services include premium administration, cost of insurance forecasting, insured tracking and policy disposition support for portfolio managers.

LPD adheres to strict privacy guidelines and utilizes state of the art encryption techniques to secure the integrity of each client's and insured's personal information. No personal or client information provided to LPD will ever be sold or shared with anyone outside of the LPD organization under any circumstance. All client data is firewall protected within the stand-alone LPD server and database.

For more information about LPD and to inquire about the services we provide to the industry, please visit our website at [www.lifepolicydynamics.com](http://www.lifepolicydynamics.com).

## About the Market Analysis

The LPD Market Analysis was first pioneered in 2006, with the goal of helping funders better understand market dynamics, so as to adjust purchasing parameters accordingly. The current format has seen it evolve into an industry wide tool used to increase awareness and transparency as we strive towards a more efficient marketplace. Data is aggregated on a confidential and voluntary basis from several life settlement industry participants, only comprising actual settlement transactions. The past few years have not only seen a growth in our data collection sample, but also a refinement in our research content.

	2006	2007	2008
Total Policies	168	589	1020
Total Lives	145	528	835
Total Face Value	\$318,800,252	\$1,406,980,337	\$2,341,129,490
Total Offered	\$93,651,351	\$332,370,225	\$521,260,426

Figure 1.2 - Summary of statistics from past studies

consistent with our understanding of liquidity on the funding side of the business. Fig. 1.2 illustrates the progress LPD has made on the data sample over the years.

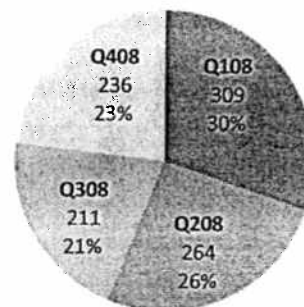


Figure 1.1 - Quarterly breakdown of settlement cases in dataset

The 2008 installment was created with the cooperation of two dozen industry contributors. The total dataset accounts for over \$2.3 billion in policy face value and includes more than 1,000 settled senior life policies. Fig. 1.1 shows the breakdown of cases throughout the survey period. The heavier activity in Q1-2 is consistent with our understanding of liquidity on the funding side of the business.

# Policy Demographics

## Policy Face Amounts

In these times of financial strain, it is not only interesting, but also pertinent to analyze its effects on trade vol-

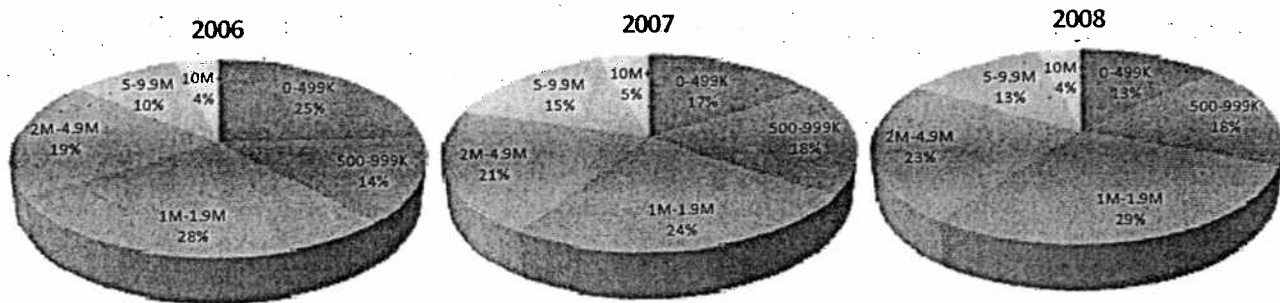


Figure 2.1 - Pie charts displaying policy face value distributions between 2006-2008 datasets

umes. The pie charts in Fig. 2.1 illustrate the amount of settlement activity for policies of a particular face value. For 2008, the average face value per policy (\$2,299,734) was fairly consistent with our study in previous years. However, our most recent sample was subject to greater skew in the distribution due to a number of jumbo policies. Accordingly, the median face value becomes a more significant indicator of the market, consistently remaining around the \$1m mark for all years. In fact, the number of policies transacted in the middle-market segment (\$1-5m) has increased from 45% to 54% between 2007 and 2008.

	Mean Face Value	Median Face Value
2006	\$1,920,020	\$1,000,000
2007	\$2,391,988	\$1,000,000
2008	\$2,299,734	\$1,067,425

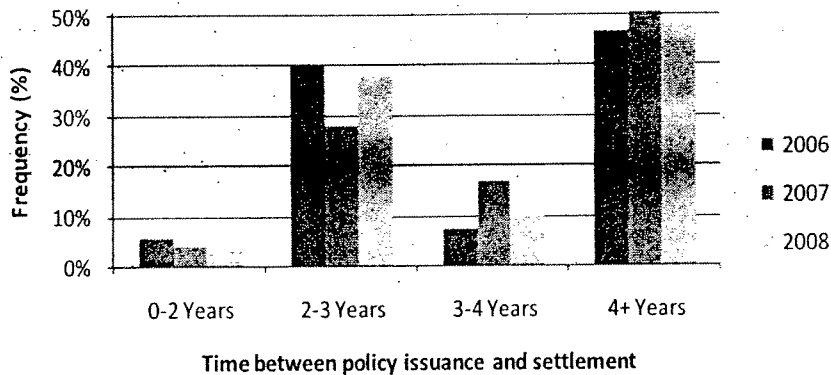
Figure 2.2 - Table of basic face value statistics

As more policies are being transacted in the middle market, volume in the micro-market (<\$500k) has continued to erode. In 2006, one quarter of all policies had a face value of less than \$500k, but this dropped to 17% in 2007 and 14% in 2008. The first quartile of the face value distribution shifted from \$500,000 in 2006 and 2007 to \$653,500 in 2008. We also saw that when overall transaction volume began to decline in Q308, micro policies became even less desirable to brokers and providers. This is a result of the common practice in adopting variable revenue structure. The economics of the situation would reveal that brokers and providers might avoid micro policies when the volume of the market is in decline. Looking forward though, new niche markets for micro-market transactions may result from constraints in liquidity.

Indeed, the upper end of the market also saw a decline in volume in 2008, as the number of policies with a face value greater than \$5m dropped from 20% in 2007 to 15% in 2008. With the limitations on capital, it is more difficult for funders to achieve portfolio diversity by purchasing large face policies. Likewise, transaction costs and the revenue driving principles have shifted providers' attentions away from smaller face policies. Both these factors seem to have contributed to the expansion of the middle-market segment.

## Policy Issue Date

As illustrated in Fig. 2.3, the distribution of the time between policy issuance and settlement was consistent with the results of our previous studies: 49% of the policies included in the sample were owned by the original owner



for over four years before settlement and the 2008 number was within the bounds of the 2006 and 2007 results. This indicates to us that there are many policies originated primarily for the use of the insurance product, where there may have been little intention, or even awareness, about selling on the secondary market. On the other side of the spectrum,

Figure 2.3 - Frequency distribution of cases by policy life

5% of 2008 policies were transacted during the contestable period (before two years) and this was again consistent with the results of our previous studies.

For 2008 there was a migration of policies from the 3-4 year range to the 2-3 year range. For 2008 and 2007 respectively, the 2-3 year range was 37% and 28% and the 3-4 year range was 9% and 17%. In the fourth quarter of 2008, the percent of policies between 24-30 months reached its highest level since Q306, as depicted in Fig. 2.4. We hypothesize that the decline in the financial markets at the end of 2008 may have driven more seniors to sell their policies earlier in order to meet liquidity needs.

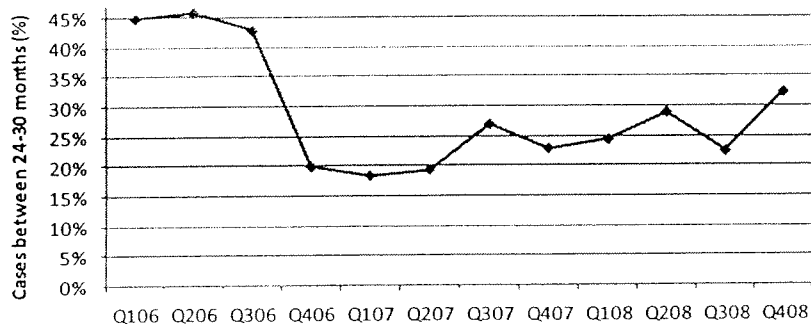


Figure 2.4 - Quarterly breakdown for policies settled within 24-30 months of issuance

## Policy Issue State

The graph in Fig. 2.5 shows the distribution of policies by issue state. New York and California issued policies dominate the sample, accounting for over 40% of all cases. It is noteworthy to mention that there is a significant gap between these two states and New Jersey, which is in a very distant third place. Significantly, New York and California, two of the largest markets, have no life settlement laws in force. Overall, 41 states were represented in the 2008 study.

Several states showed little or no presence in the dataset as presented in Fig. 2.6. Oklahoma (pop. 3.6m), Mississippi (2.9m), and Kansas (2.7m) are all significantly more populous than the others in the list. In fact the remaining states account for almost all US states with a total population of 2 million or less. The notable exceptions are Hawaii with 5 settlements, and Delaware with 29 settlements.

We can also define the state distribution by total face amount transacted in the settlement marketplace, as shown in Fig. 2.7. It is interesting to note that Delaware, one of the least populous states is fourth highest in total face amount. Indeed, the average face value for Delaware issued policies is over \$4m, with an even distribution around that figure. On the other hand, despite accounting for 4.7% of cases in the dataset (4th overall), Arizona issued policies were 9th in total face amount, with an average of only \$1.2m. From an overall perspective, there is a slight trend where average face values are smaller for states with smaller transaction volumes. This is despite the fact that most of the jumbo policies in the dataset were originated in the states with smaller transaction volume.

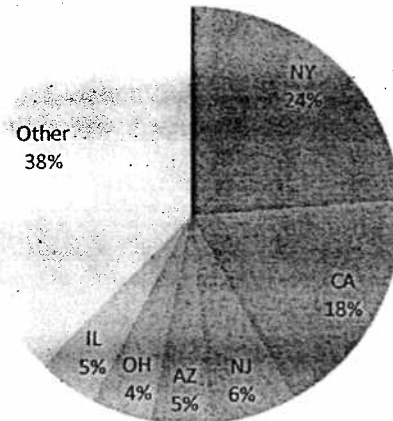


Figure 2.5 - Issue State Distribution by Volume

States with 0 cases	States with 1-2 cases
Alaska	New Hampshire
Idaho	Mississippi
Maine	District of Columbia
Montana	Kansas
North Dakota	Rhode Island
Nebraska	New Mexico
Oklahoma	Wyoming
South Dakota	
Vermont	
West Virginia	

Figure 2.6 - Table of low prevalence states

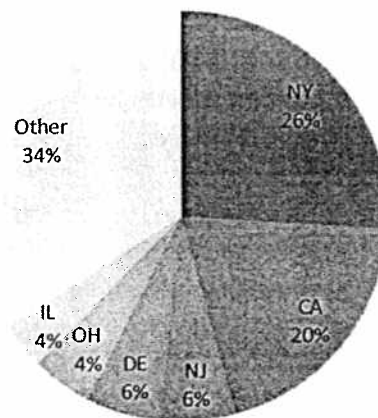


Figure 2.7 - Issue State Distribution by Face Value



## Carrier Demographics

### Carrier Distribution

Although rarely considered in the analysis of life settlements too rigorously, the subject of life insurance carriers is a notable one to investigate. As the originators of the life insurance, it is interesting to see which carriers are dominant in the settlement marketplace and what information this may divulge. Fig. 3.1 shows the breakdown of carriers in the sample set. Of the 57 carriers in the study, the 9 largest are depicted. The 'Big 4' carriers account for almost 40% of all policies transacted on the secondary life market. A significant gap exists between the Big 4 and the next largest group with AIG's 8.0% stake being much larger than MetLife's 5.6% share.

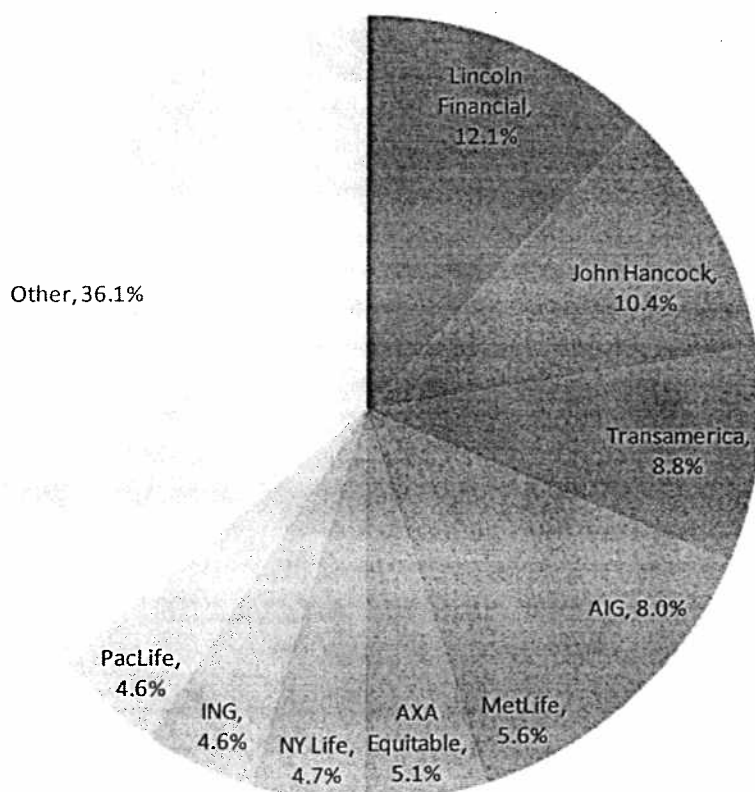


Figure 3.1 - 2008 Settlement distribution by life insurance carrier

It is important to note that the proportions as shown in the pie chart are representative of settled transactions.

However, it is also interesting to note how this compares to market share by face value. Although we'd expect this to tie in closely with gross counts, there are several outliers. As you can see in Fig 3.2, MetLife constitutes a much smaller proportion by face value. On the other hand, Phoenix and ING have a larger market share when

Carrier	Rank by Volume	Rank by Face Value	Market Share	Total Face Value	Average Face Value
Lincoln Financial	1	1	12.1%	\$285,604,162	\$2,321,985.06
John Hancock	2	2	10.4%	\$275,842,151	\$2,602,284.44
Transamerica	3	4	8.8%	\$206,103,114	\$2,290,034.60
AIG	4	3	8.0%	\$222,847,559	\$2,717,653.16
MetLife	5	9	5.6%	\$112,265,203	\$1,969,564.96
AXA Equitable	6	7	5.1%	\$123,516,000	\$2,375,307.69
New York Life	7	8	4.7%	\$122,073,627	\$2,543,200.56
ING	8	5	4.6%	\$150,290,616	\$3,197,672.68
Pacific Life	9	10	4.6%	\$111,086,717	\$2,363,547.17
Phoenix Life	10	6	3.1%	\$131,070,908	\$4,095,965.88
Genworth	11	14	3.1%	\$57,198,787	\$1,787,462.09

Figure 3.2 - Summary of statistics related to carrier market prevalence

looking at dollar amounts. These observations are further emphasized when looking at average face value. It is interesting to note that the figures for Phoenix Life issuances are not skewed by jumbo policies, with half of the face values amounting to \$4.5m or more. Additionally, several carriers were more prevalent among smaller policies, notably Aviva (Range: \$40k-\$2m, Median: \$625k) and Mutual of Omaha (Range: \$150k-\$1.5m, Median: \$850k).

We can also make some interesting findings by dividing the transaction volume by quarter. By comparing changes in market share, as defined within the constraints of our dataset, we can make comparisons between carriers, irrespective of overall changes in transaction volume. Phoenix Life, which experienced a downgrade towards the end of Q3, saw a steady market share of around 3.7% over Q1-3 with a significant drop to 1.7% in Q4. Similarly, the financial news surrounding AIG contributed to investor concerns about their credit risk which is indicated by a sharp decline in demand for AIG policies in the Q4 secondary market. Fig. 3.3 shows the quarterly transaction volume for the few carriers with discernable trends.

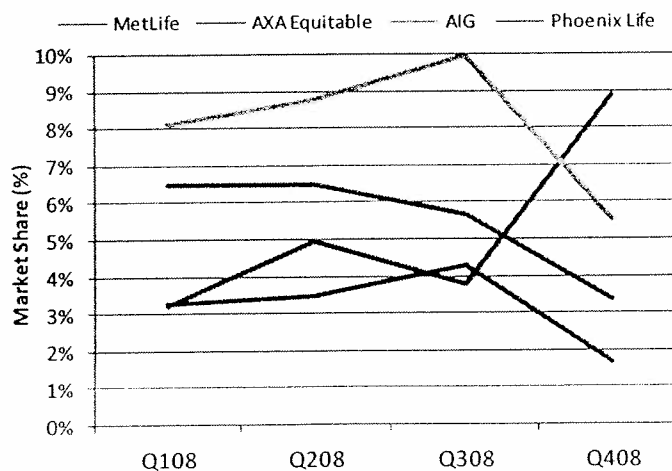


Figure 3.3 - Quarterly transaction volume for select carriers

John Hancock		Lincoln Financial	
State	Cases	State	Cases
NY	34.3%	CA	16.3%
CA	20.0%	NY	13.8%
IL	8.6%	IL	9.8%
MN	4.8%	OH	8.9%
TX	3.8%	AZ	5.7%
Top 5	71.4%	Top 5	54.5%

Transamerica		AIG	
State	Cases	State	Cases
CA	21.6%	NY	33.3%
NY	19.3%	CA	14.7%
OH	8.0%	NJ	9.3%
AZ	5.7%	TX	5.3%
NJ	4.5%	IA	5.3%
Top 5	59.1%	Top 5	68.0%

Figure 3.4 - Breakdown of top five issue states for 'Big 4' carriers as represented in the 2008 settlement market.

Aside from analyzing transaction volumes, we can also look at how the particular carriers are distributed by issue state. We would imagine the results to be similar to the overall sample, as discussed in the previous section, with slight discrepancies. However, just looking at the top four carriers we see some notable differences, as shown in Fig. 3.4. Lincoln Financial policies were much more evenly distributed by state of issue than other carriers, while John Hancock was most concentrated in New York and California issuances.

## Carrier Ratings

Despite the massive downgrades that ambushed the financial markets in the second half of 2008, the distribution of carrier ratings remained relatively consistent with previous years' results. Certainly, the diversity of carriers helped minimize the effects of the downgrades on the industry as a whole. Thus, compared to the rest of the universe of financial instruments, the underlying credit rating of a portfolio of life settlements would have been minimally affected by the decrease in credit quality.

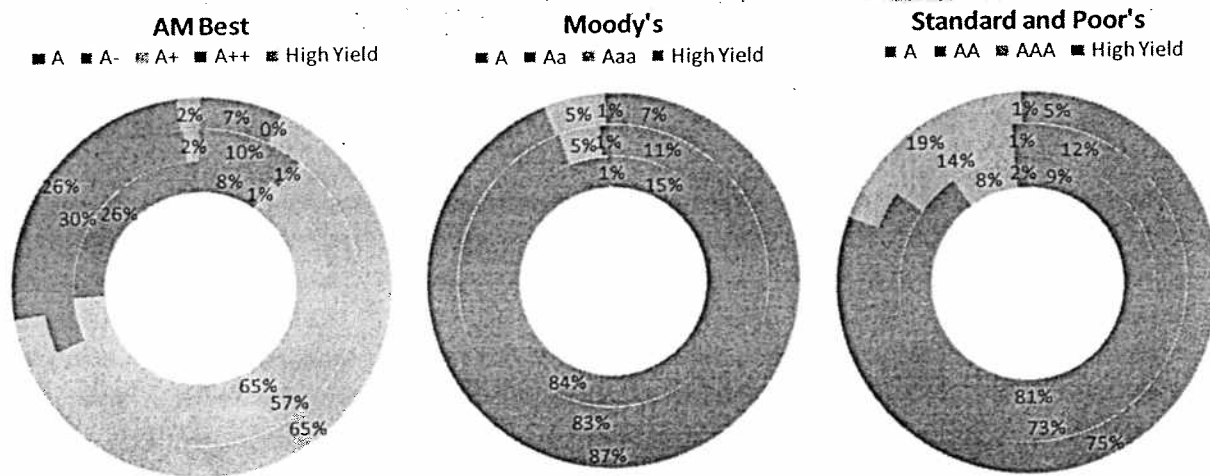


Figure 3.5 - Carrier rating distributions (innermost ring represents 2006, outermost ring represents 2008)

The events during the latter stages of 2008 have illustrated one of the advantages of investing in cash life settlements over synthetics. Namely that cash life settlements do not have exposure to the credit risk of the counterparty (ie. investment bank) involved in the synthetic trade. Despite being marketed by many as an "uncorrelated asset", any synthetic swap is still subject to counterparty risk and in order to properly value any longevity swap (even one that is index based), it imperative to model default probabilities and correlations in addition to any longevity modeling. However, an investor that holds life insurance policies on their balance sheet is primarily concerned with measuring and managing longevity risk. An investor in a life settlement fund, while minimally subjected to the credit risk of the underlying instruments, must also concern themselves with the solvency and management performance of the fund. However, this goes without saying as any qualified investor should be expected to perform their due diligence before investing.

# Insured Demographics

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## Age and Gender Distribution

Our findings over the past three studies corroborate the general assumption that the market is two-thirds male and one-third female. In 2008, 65.7% of our sample was male while 34.3% of the population was female. Both the male and the female results were consistent with previous years' sample as summarized in Fig. 4.1.

	2006	2007	2008
Females	37.5	36.5	34.3
Males	62.5	63.5	65.7

Figure 4.1 - Gender distributions between 2006-2008

Breaking down the separate genders by age group for frequency analysis, we see a much more significant growth in the number of females as age increases than we do for males as illustrated in Fig. 4.2. Looking first at the male sample, the age distribution is relatively symmetric and slightly less peaked than a normal distribution, with a 2008 average age of 76.8 years and a standard deviation of 5.7 years. The sample of the females in our study differed greatly as the distribution was skewed left and more peaked around the mean. The average female age was 81.1 years with a standard deviation of 4.7 years. A closer look at the histogram shows us that nearly half of the females in the sample were in the 80-85 range. The fact that these distribution trends show consistency over the three years indicates a level of significance behind it. One reason behind this may be because of the higher risk in female settlements as a result of higher general life expectancy and lower experience. Consequentially, female cases that do reach settlement tend to be of higher ages than their males counterparts.

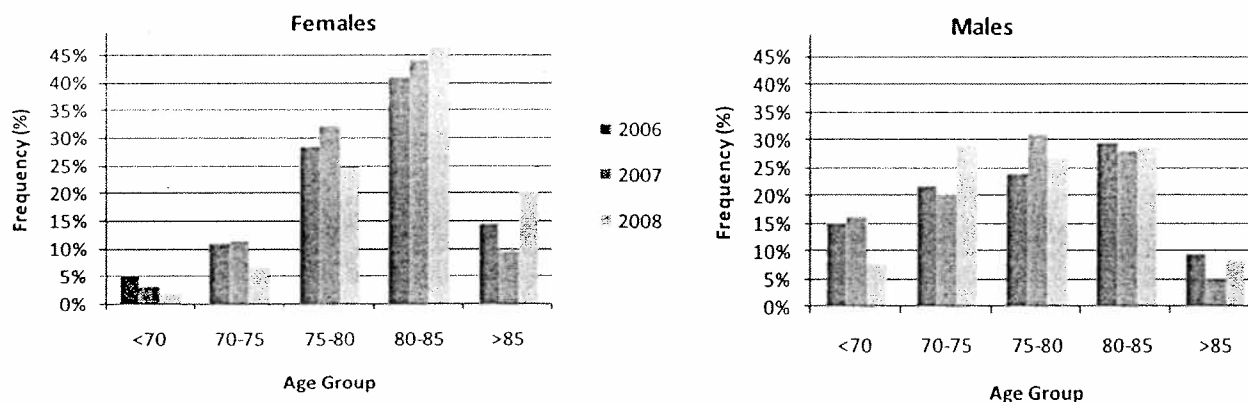


Figure 4.2 - Age distribution by gender

## Life Expectancies

Discussions concerning life expectancy have always commanded the full attention of all life settlement market participants. Life expectancies are used in every realm of our business. From qualifying insured client expectations to generating prices and projecting investment returns, the degree to which we depend on life expectancies cannot be underestimated. Understandably, with so much reliance on accuracy, LE providers are quick to be viewed with scrutiny. This was all the more true in 2008 with changes in underwriting methodology at several firms. In this section, we hope to shed some light on how the various LEs compare among their providers, and what they mean as a whole.

As many of you know, we presented earlier formats of our 2008 report with AVS and 21st data alone, as the sample sizes we had from other LE providers were too small to exhibit. However, after the initial unveiling of the study, both Fasano and ISC indicated their willingness to participate with us directly for the report you are reading now. This new LE data required an additional step in preparation to coordinate their involvement.

### Average Life Expectancy by Age

To compare different LE providers, we separated the 2008 life expectancies by age groups. In the end, we were able to 'fill in the gaps' with LE data on many of the insureds in our dataset. Although we received a different number of underwritten lives from each LE provider (21st: 796, AVS: 769, Fasano: 523, ISC: 294), it is most appropriate to compare them on the same set of lives of which there was an overlap of 235 unique insureds. Fig. 4.3 shows the average LE in months at various age groups for each of the LE providers in our sample. Figures for the <70 age bracket must not be taken too seriously as they represent only 6 individuals in the overall sample, all of which are male.

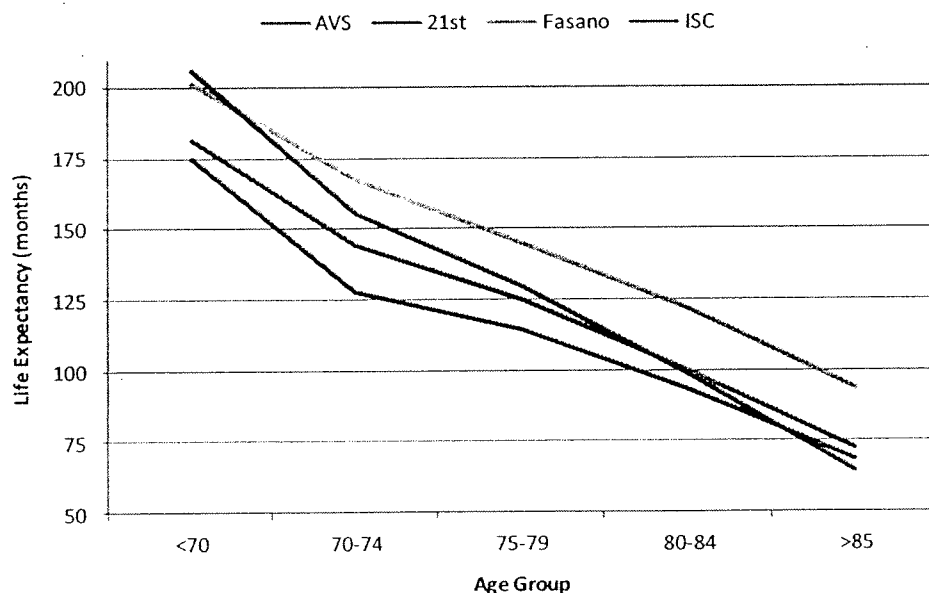


Figure 4.3 - Average life expectancies by age group for identical insureds

Among the 235 insured dataset, Fasano consistently provided the longest LEs overall, and 21st Services appears to have consistently been the shortest among the four LE providers. AVS is very much between the two, exhibiting almost identical changes in slope to 21st. ISC, on the other hand, reveals a wider array of change across the various age groups with the longest LEs in the youngest age group and the shortest in the oldest age group. However, it is easy to notice that there is a strong convergence in the AVS, 21st and ISC average LEs towards the older age groups – all within an 8 month range.

Fig. 4.4 shows the same presentation format for all the LE data we have, irrespective of overlap information on the same insured. The results are similar to the filtered sample, except that the <70 age group is much expanded for AVS, 21st and Fasano, thereby giving us a cleaner gradient.

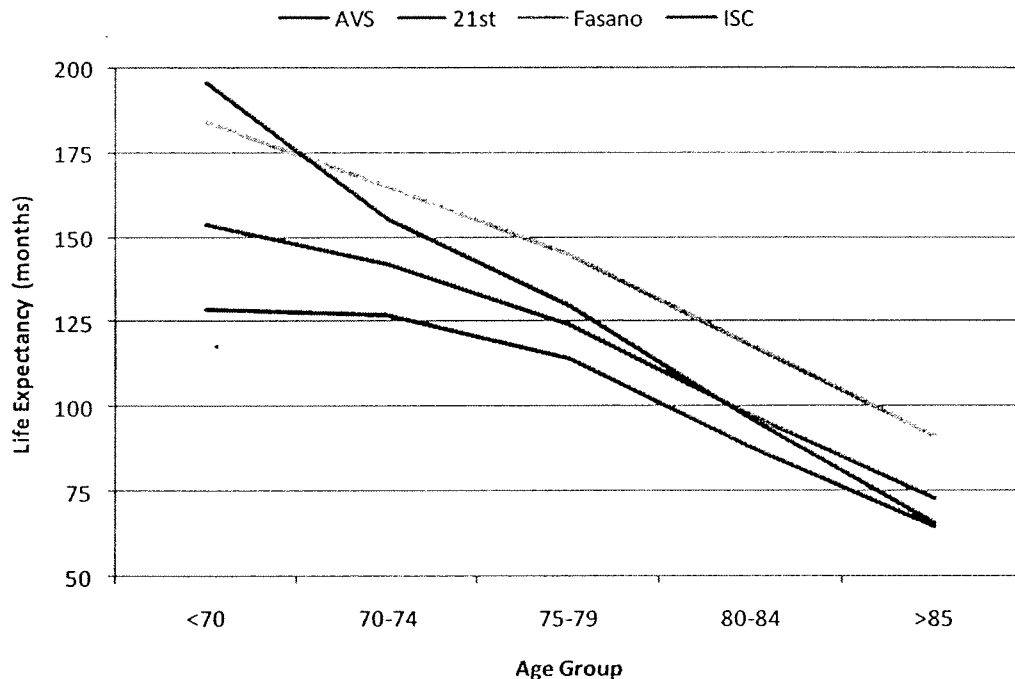


Figure 4.4 - Average life expectancies by age group for complete dataset

### Difference from a Blended Average

Another way to visualize these differences is by comparing the variance of each from a blended average of all four LEs. The graph in Fig. 4.5 shows the average difference from this 'blended LE' in months. This is a straight average of AVS, 21st Services, Fasano and ISC life expectancies on the same insured. As a result, you should be able to see that the values shown at each age group sum to zero.

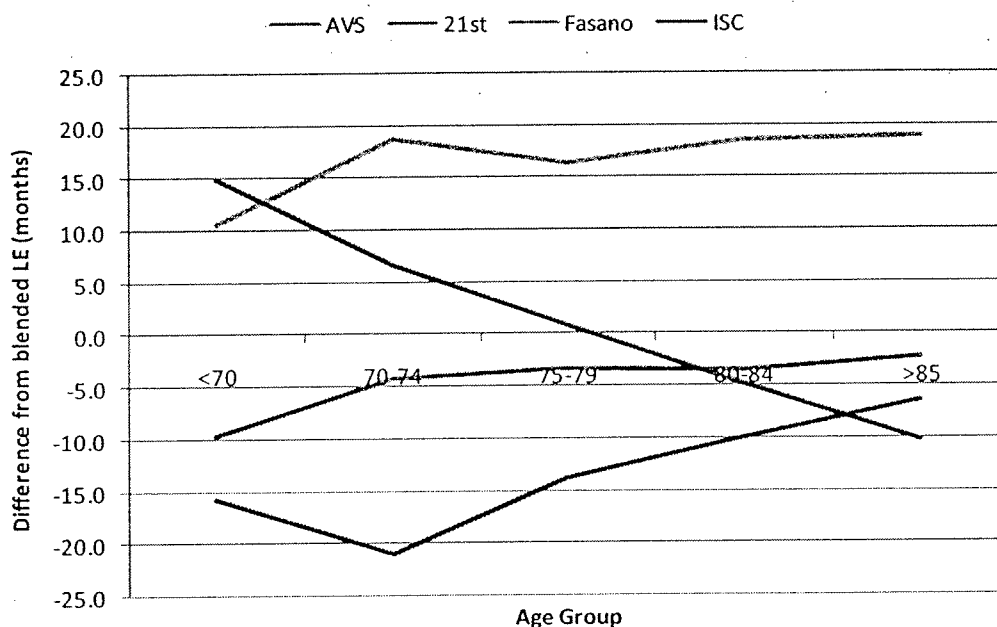


Figure 4.5 - Average absolute difference from blended LE

Immediately, we see that the AVS and 21st are both constantly below the average, which is the opposite case for Fasano. It is also interesting to note that AVS is closest to the industry average – never deviating from the mean by more than 10 months across all age groups. Likewise, Fasano is also very consistent within a 9 month variance band of LEs +10 to +19 months from the average. As we saw on the previous graphs, ISC LEs seem to depart from the mortality curve shown by the other three LE providers, which is further illustrated in this depiction. We see that at the lower age ranges, they predict longer life expectancies than Fasano on average. As age increases, the propensity at which their life expectancy decreases is so much more drastic than everyone else that they end up being shorter than 21st LEs on average.



However, it may be more relevant to analyze the percentage difference from the mean. This accounts for the fact that higher age groups would have shorter LEs, where slight differences have more volatile effects on their application (eg. settlement pricing). The graph in Fig. 4.6 is derived in similar fashion to Fig. 4.6, but the difference from the blended LE is calculated as percentage difference. Once again, AVS LEs are closer to the average, ranging between 1.8% and 4.7% below the blend. When looking at percentages, 21st LEs also remain within a relatively small range of divergence. Fasano LEs, which showed a steady absolute difference in the previous graph, demonstrate an increasing spread from the average with increasing age. However, it is also imperative to recognize that the other three LE providers show a general convergence at higher age groups, thereby exaggerating this spread.

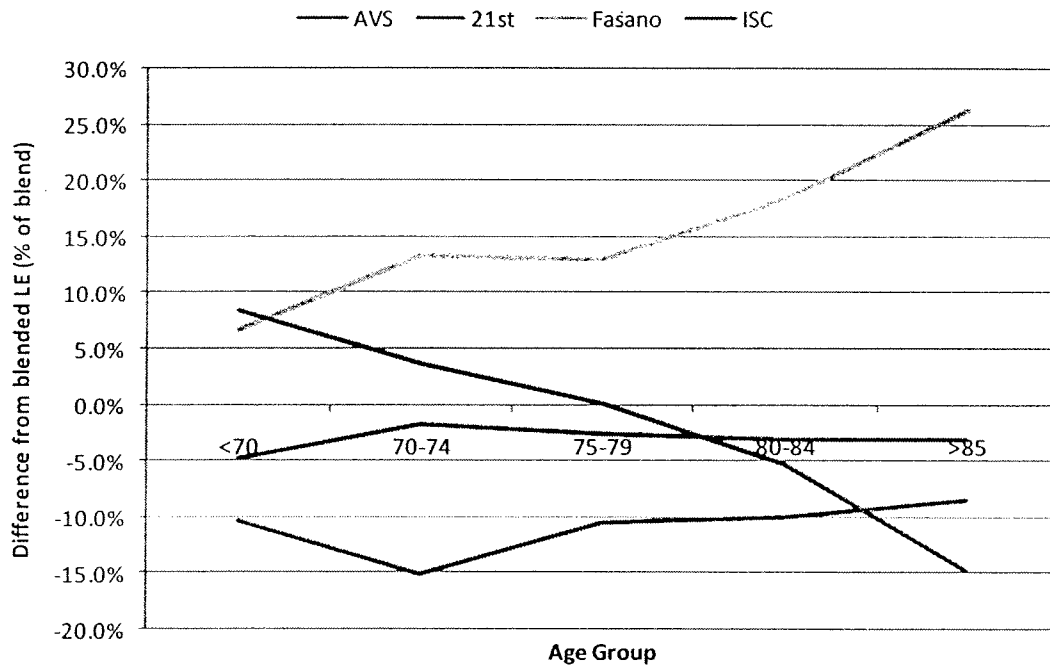


Figure 4.6 - Average percentage difference from blended LE

## Gender Discrepancies

The four graphs in Fig. 4.7 show the difference between male and female underwriting for each of the LE providers in our survey. These use the entire dataset, as opposed to the restricted sample based on identical insureds.

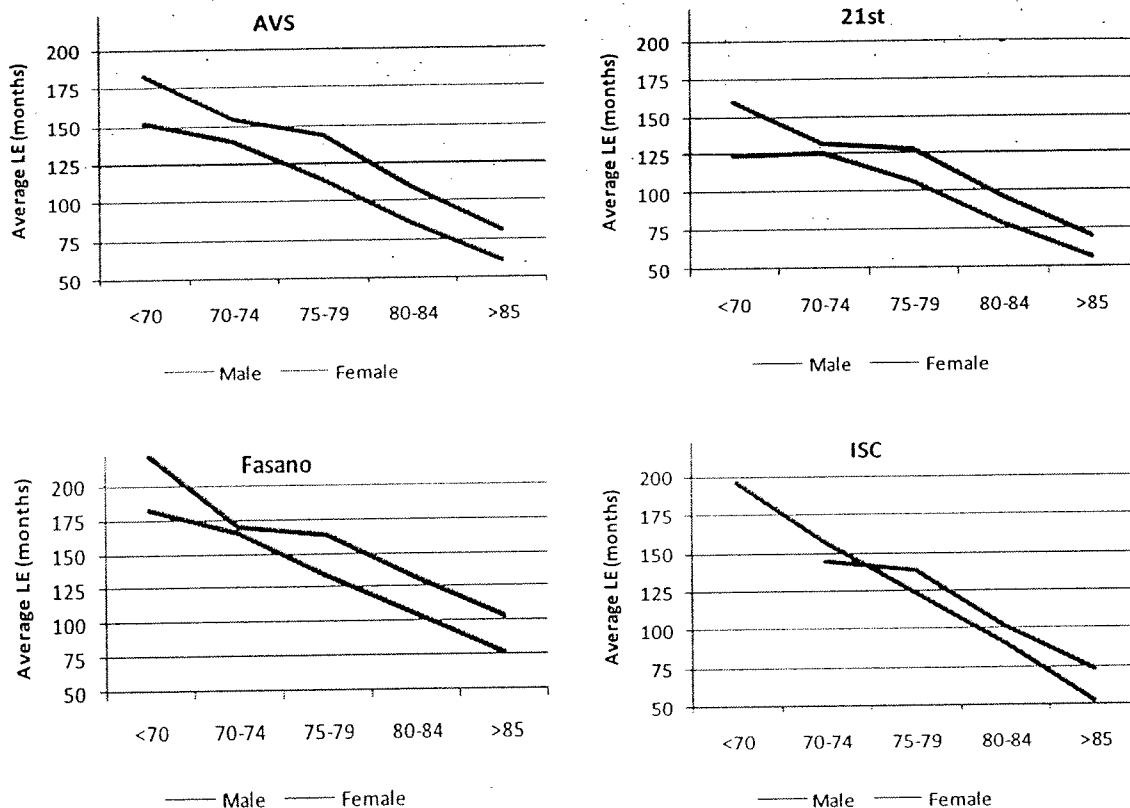


Figure 4.7 - Gender discrepancies by LE provider

As we would expect, males are generally underwritten with significantly lower LEs than females in the same age group. An important statistical discrepancy to note, as discussed in the previous section, is that the female data is a lot more prevalent at the higher ages, as compared to the males.



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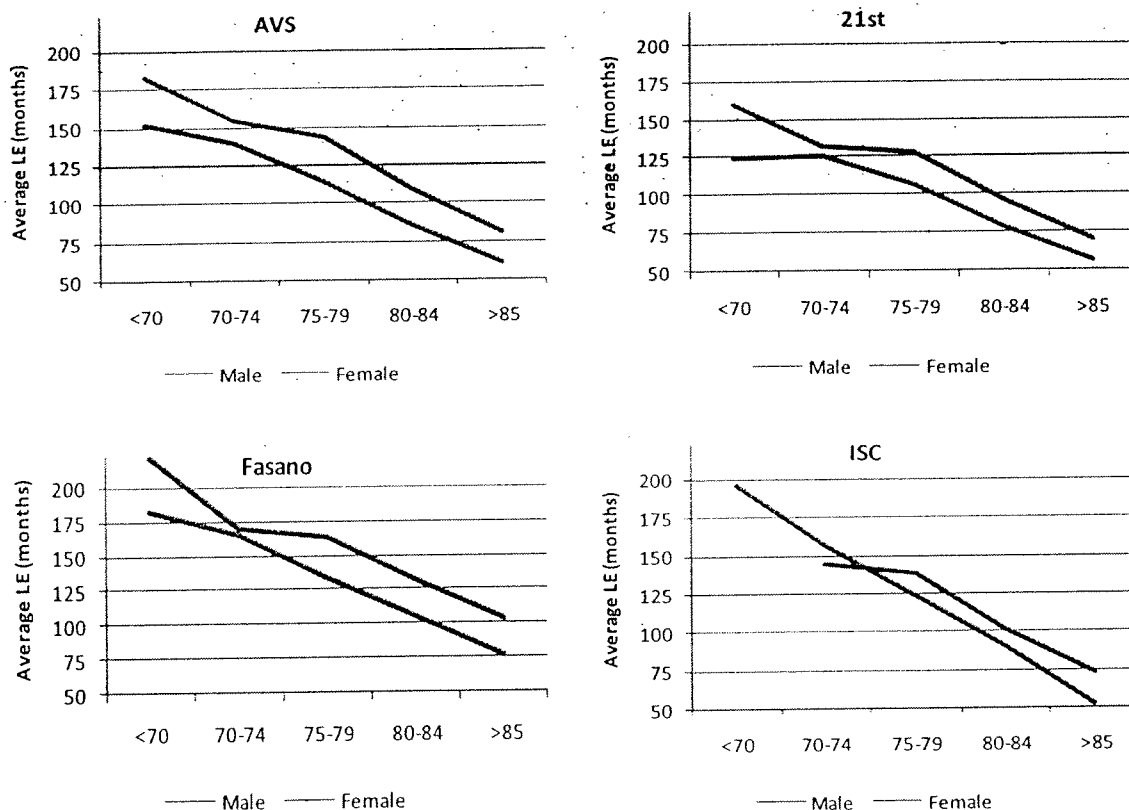


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### Life Expectancy by Maturity Age

Another perspective on the concept of life expectancy is the estimated maturity age of the insured. We can calculate this by taking a specified set of LEs and adding it to the underwritten age. Life expectancy by age as seen by each of the LE providers is graphed on Fig. 4.8. Of course, the results are as anticipated, but it is an alternate viewpoint that is seldom considered.

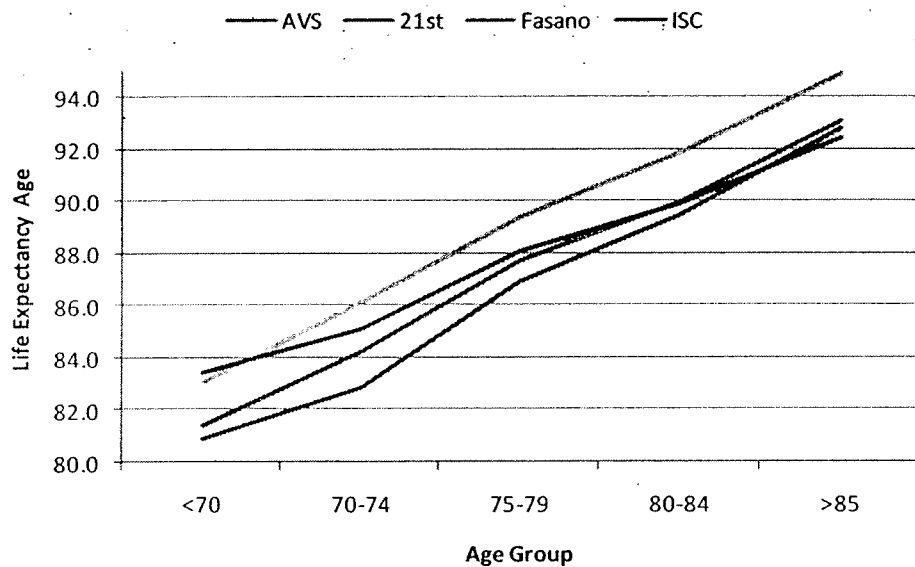


Figure 4.8 - Average life expectancy age

Although general life expectancy for the US tends to be in the mid to high 70s, we deal with a more exclusive set of seniors in the life settlement industry. On the one hand, the insureds are of higher net worth than the average American and have lived their life with more comprehensive healthcare. Additionally, as we saw in the age distributions, many of them have already passed the threshold age of US life expectancy. Remarkably, the overall sample reveals average life expectancies of 87 years for males and 91 years for females, using all four LEs.

The graph in Fig. 4.9 shows the distribution of life expectancy by age and gender using a blended LE. As we would expect from both our observations on age distributions and the differing mortality trends, the female sample is much higher than the male sample. Interestingly, we see 50% of males with a life expectancy in the 85-88 year bracket. The concentration is even more extreme in the case of females, with almost 70% in the 90-93 year bracket.

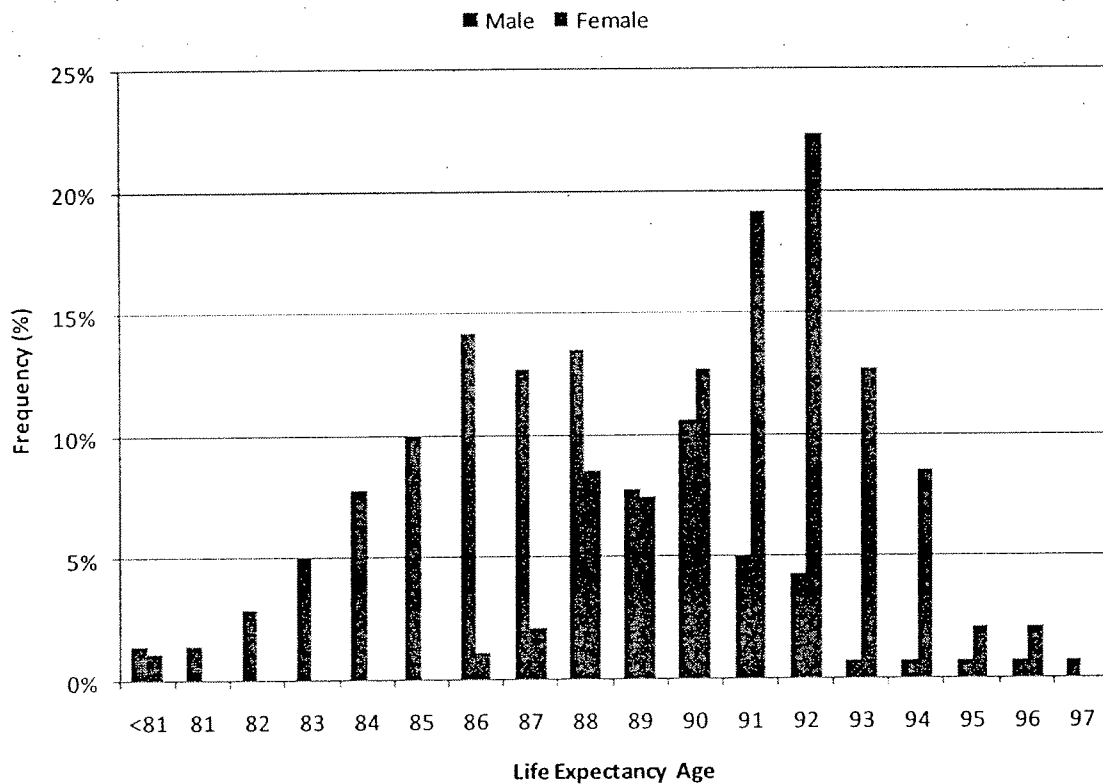


Figure 4.9 - Distribution of life expectancy age by gender

## AVS and 21st Comparison

The overall prevalence of AVS and 21st LEs in our initial dataset was a significant reason behind not including the other LE providers in our previous reports. Fig. 4.10 shows average LEs on our overlap of the 703 lives we had with AVS/21st data.

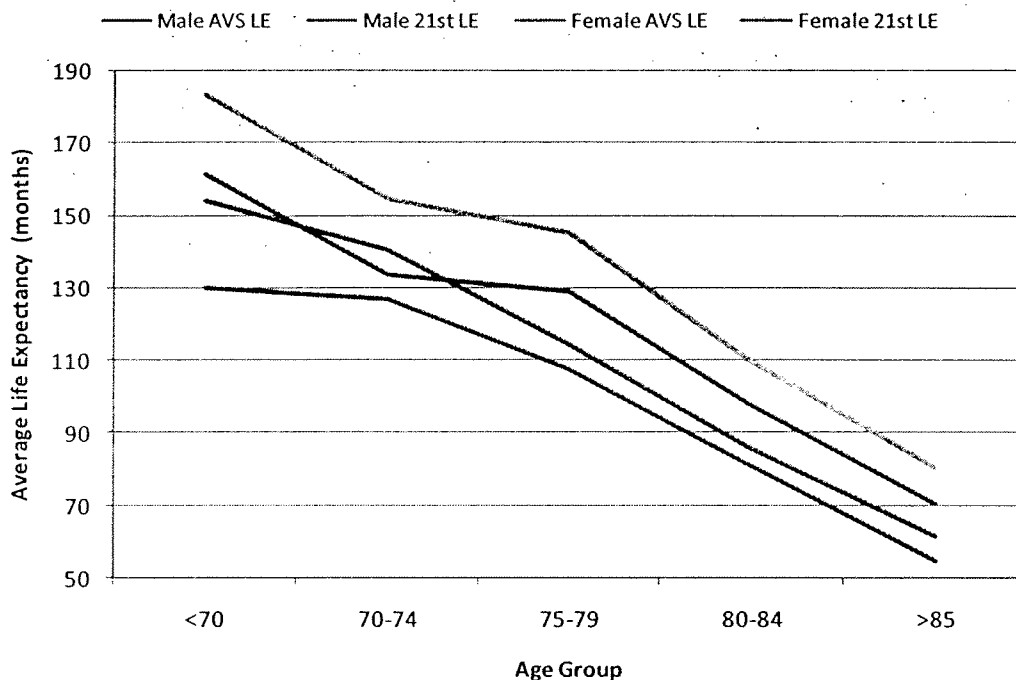


Figure 4.10 - Average Life Expectancy for identical insureds for AVS and 21st data

Just looking at these two LE providers, we see that they are not all too dissimilar. All the lines show a clean downward trend, consistent with our assumptions on mortality. Comparing the 'Male' lines with each other, and the 'Female' lines with each other, we can see that the inflections are similar for each pair, remaining close to parallel. There is also a convergence in the spread with increasing age.

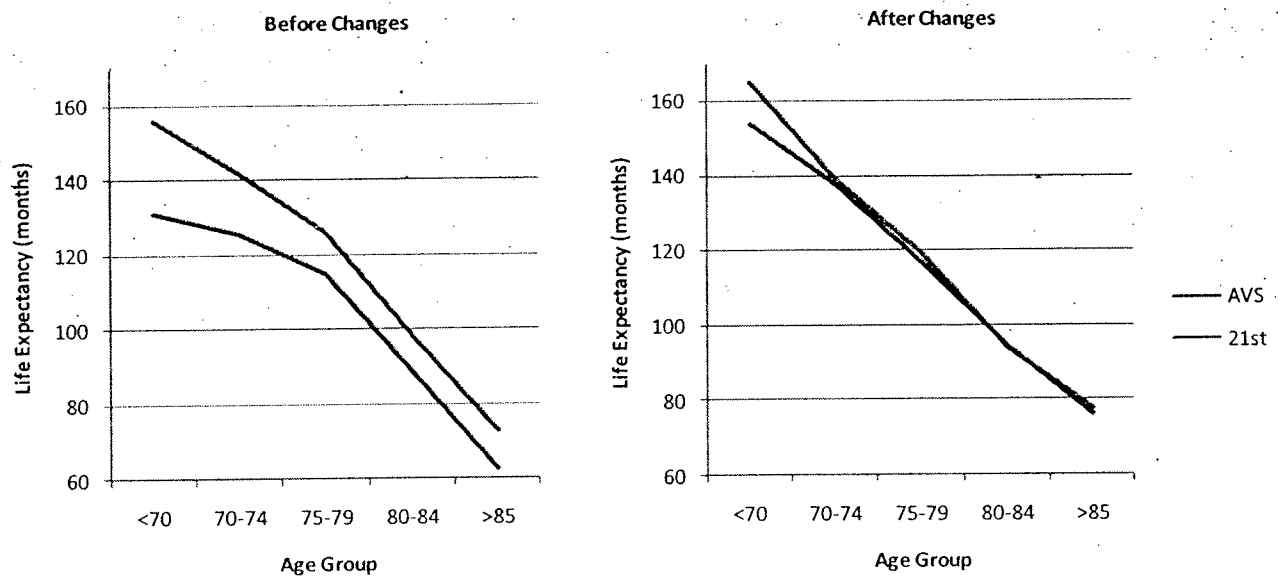


Figure 4.11 - Average life expectancies for AVS and 21st before and after November 1st 2008 (underwriting adjustments)

By the 4th quarter of 2008, both AVS and 21st had made adjustments to their underwriting and/or mortality tables. Breaking this down into a 'before and after' scenario, we see a stark change, as shown in Fig. 4.11. From this, we can make several clear observations. Both LE providers showed a general increase in average life expectancies, as the curves shift upward. However, we see a larger shift in the 21st Services curve, which leads us to believe that their changes were more substantial. It is also noticeable that the overall effects were much larger on the lower end of the age spectrum. Although the graphs depict the curves intersecting at several points, we can partially attribute this to the considerably smaller sample size of 2008 settlements traded with the new LEs.



We can get another interesting perspective on this by looking at it on a time-series basis. Fig. 4.12 shows a monthly analysis of a direct comparison between AVS and 21st life expectancies. This does not take into account the absolute difference (number of months) between the two LEs.

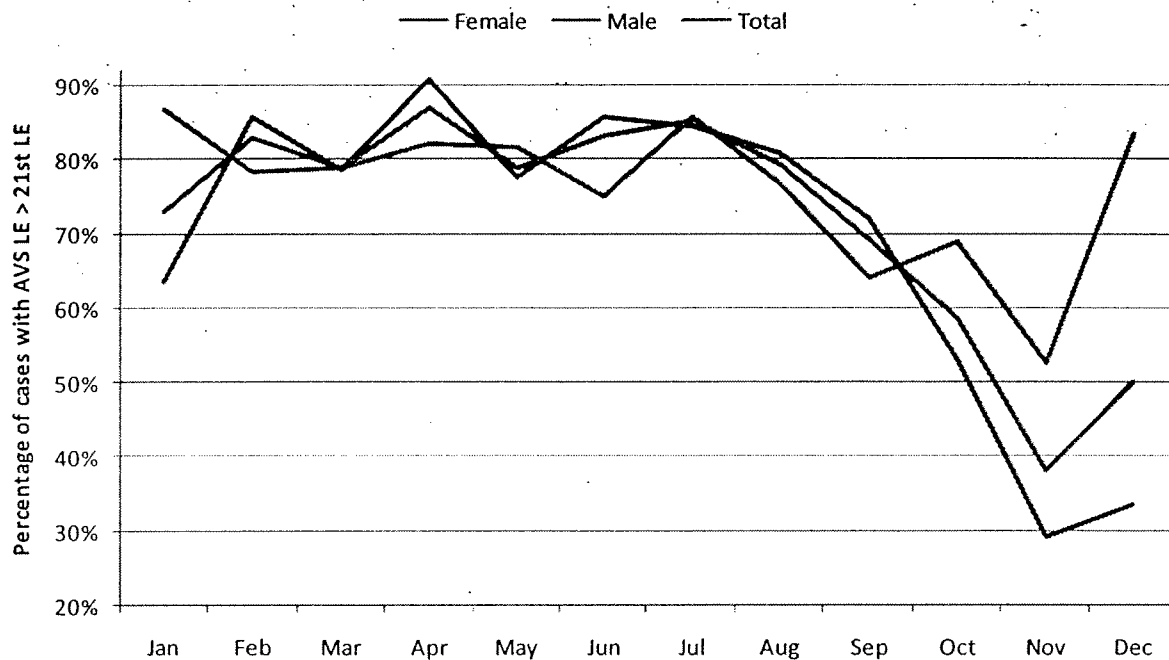


Figure 4.12 - Percentage of cases where AVS LE is higher than 21st LE by 2008 month

We can observe the following:

- From January to September, AVS LEs are higher than 21st LEs 80% of the time on a very consistent basis.
- After the change by 21st Services in mid-September, the number drops significantly to 40%.
- After the change by AVS in mid-November, we see a climb back up to around the 50% mark.

It is also interesting to note how the trends are different between genders, with AVS yielding longer LEs on females in the fourth quarter of 2008. The final 50% number for the end of December suggests that the two LE providers have, to some extent, converged in their underwriting. This is something that will be looked at more closely in 2009.

### Concluding remarks on life expectancies

The expansive time-scale nature of life expectancies is such that it is hard to compare probabilistic estimates with actual results. Furthermore, an LE on any given insured is almost guaranteed to change throughout their life, as the variables are infinite. With this in mind, we should conclude that absolute precision is unattainable in the realm of LE service providing. However, with the experience gained over time and the constructive competition between them, we have every reason to maintain confidence in the performance of our industry's LE providers.

Although the industry is encouraging standardization among life expectancy providers, differing points of view should always be encouraged for a science so complex. At this time, the leading LE providers are working together to agree upon best practices, underwriting standardization and performance reporting standards.



## Settlement Economics

### Premium Financing

Between the last two survey years, we can see a significant decline in the number of premium financed settlements, as shown in Fig. 5.1. This is in accordance with the perceived decrease of funding in the marketplace for the purchase of premium financed policies. The accompanying table in Fig. 5.2 shows a quarterly breakdown of premium financed settlements relative to core settlements. We can observe that the liquidity squeeze in the fourth quarter of 2008 had the most effect on premium financed settlements.

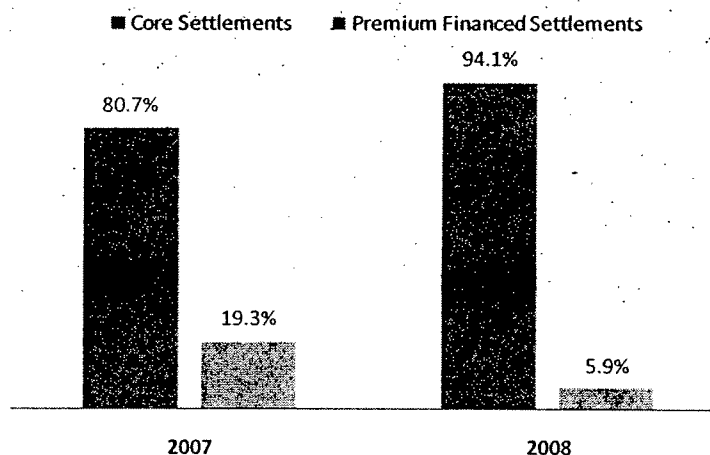


Figure 5.1 - Breakdown of premium financed vs. core settlements

	Core	PF
Q108	96.0%	4.0%
Q208	90.9%	9.1%
Q308	91.7%	8.3%
Q408	97.0%	3.0%

Figure 5.2 - Quarterly breakdown of core vs. premium financed cases

The table in Fig. 5.3 shows certain discrepancies that we'd expect between premium financed and core transactions. Face values are over twice that of regular settlements, with half of all premium financed settlements consisting of policies with face values greater than \$4m. The duration between issuance and settlement is also drastically shorter for premium financed originated paper. In fact, 80% of all premium financed settlements were completed within 24-36 months after the policy was issued.

	Mean		Median	
	Face Value	Policy Life (months)	Face Value	Policy Life (months)
Core	\$2,044,424	266.2	\$1,042,880	67.8
Premium Financed	\$4,182,181	36.9	\$3,000,000	29.6

Figure 5.3 - Table of general statistics comparing core vs. premium financed settlements

## Offer to Broker

Without access to the winning bidder's IRR, we use the offer to broker as a percent of face as a proxy for analyzing the rate of return of the market. Fig. 5.4 illustrates both the development of the life settlement market over the past three years and the impact of the financial markets on 2008 returns.

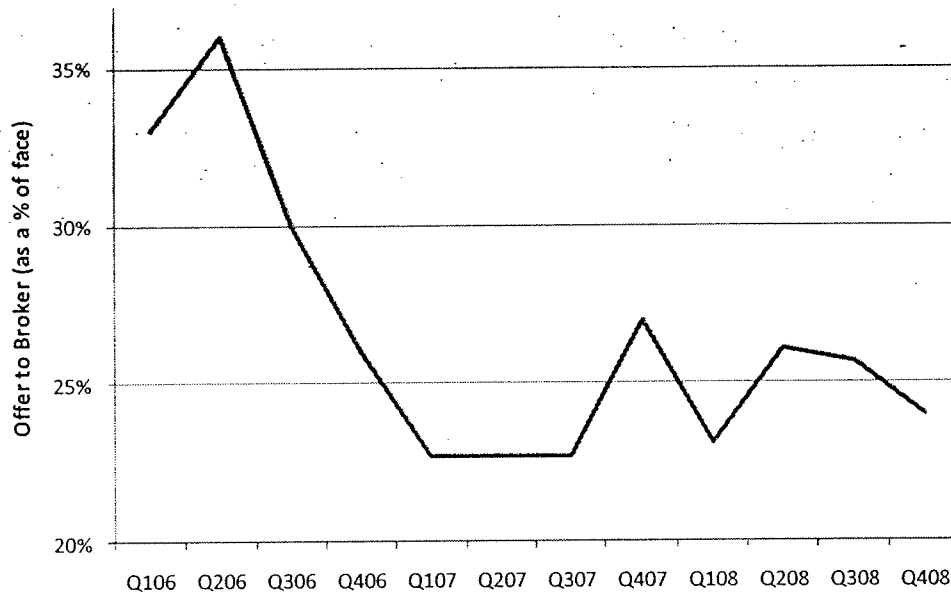


Figure 5.4 - Quarterly breakdown of offer to broker as a percentage of face value

Over the past few years, volatility has subsided as the life settlement market has grown more efficient. The increase in transaction volume and reporting of industry data has helped to drive IRR convergence and has aided providers in issuing more competitive bids which has decreased the number of outliers and reduced bid volatility. The apparent pricing convergence over the past three years is more impressive given the recent growth in proprietary models, but the data suggests that the multitude of pricing strategies employed by the demand side may not produce as diverse a result as previously thought.

Although the assumptions and methods will differ from model to model, all valuations are still significantly dependent on the life expectancy chosen. Convergences from the life expectancy providers has certainly reduced IRR volatility and while the choice of the LE provider is still the most significant factor, the deviations between the LE providers are beginning to diminish. Further convergence will be driven by increased transparency of the LE provider's methodology and the commissioning of independent studies to account for the difference in each LE provider's methodology.

Looking closer at the 2008 numbers, one can see evidence of 'the perfect storm' that hit the life settlement market in September with a combination of limited liquidity and the increase in 21st Services life expectancies. Although generally considered to be an uncorrelated asset because a vast majority of a life settlement's risk is due to longevity, the drop in offer to face suggests that there exists a correlation to other capital markets. Therefore, it suggests that when pricing a policy one needs to consider a liquidity risk premium for the instrument. Because liquidity problems began to impact the market at nearly the same time that LEs were increased (and ratio of offer to face dropped because of the time value of money) it is difficult to separate the effect of liquidity and longevity on the market. We recommend further study into quantifying the risk premiums that compose the cost of capital for a life settlement policy.

Fig. 5.5 shows the frequency breakdown of the offer to broker as a percentage of face value. Offers between 10-25% account for over half of the transaction volume in our 2008 sample.

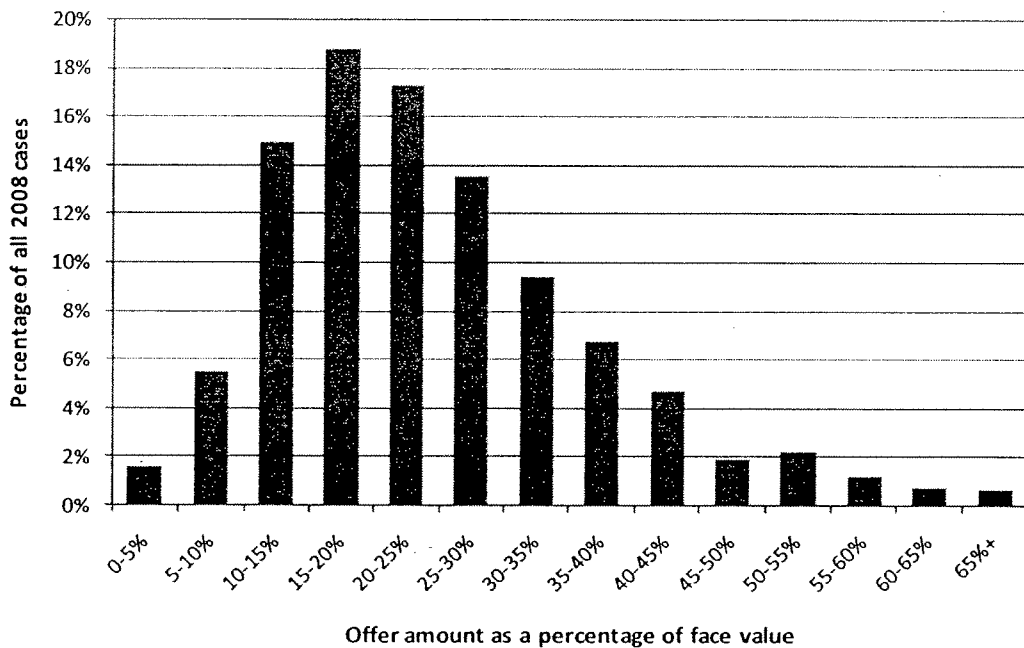


Figure 5.5 - Frequency distribution of offer amounts to broker

## Value Created

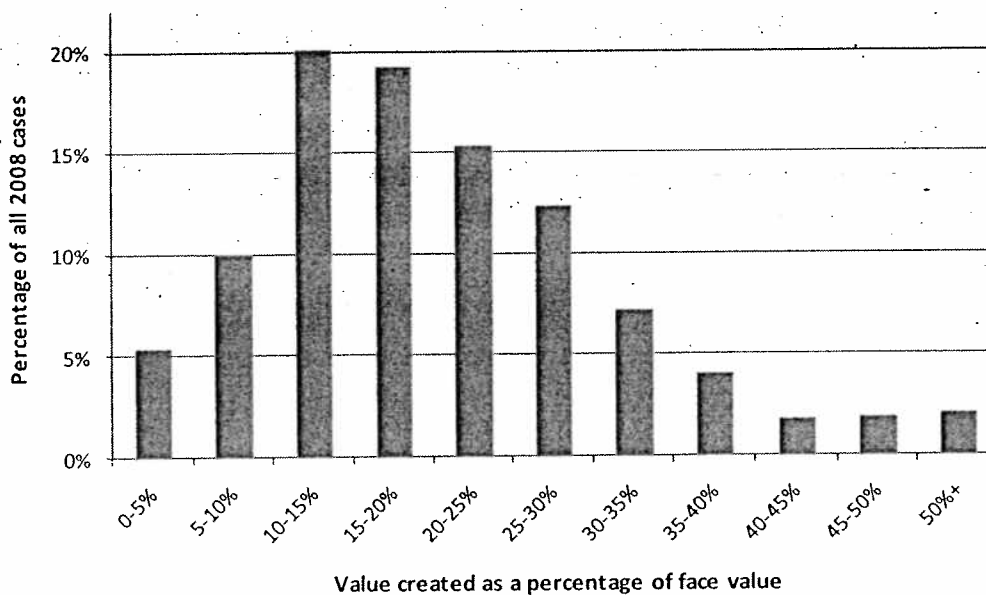


Figure 5.6 - Frequency distribution of value created

To estimate the amount of value created to the general consumer, we looked at the difference between offer to broker and the cash surrender value of the policy. Although this inherently includes varying layers of fees, it can be used to give an approximation of the consumer value created by the life settlement transactions. Fig. 5.6 shows a frequency breakdown of value created as a percentage of face value. As expected, the distribution closely mirrors that of the offer to broker, although significantly compressed to the lower ranges of the spectrum after taking into account the policy cash values.

	Average	Median	Total		Average	Median
Cash Surrender Value	\$49,036	\$1,030	\$34,717,135	CSV/Face Value	4.09%	0.12%
Face Amount	\$2,299,734	\$1,067,425	\$2,341,129,490	Offer/Face Value	24.41%	21.61%
Offer to Broker	\$512,044	\$298,473	\$521,260,426	Value Created	20.33%	18.00%

Figure 5.7 - General statistics on value creation



## State Regulation

In our sample, 60% of policies fell under the jurisdiction of regulated states. However, this data is slightly biased because the regulated states in our sample had a higher population on average. Adjusting for population, there were 4.38 policies per million for unregulated states and 2.78 policies per million for regulated. We believe that the essential reason for this difference is that the lack of regulation allows for more policies to be transacted. However, it should be noted that GDP per capita was nearly ten thousand dollars higher in unregulated states (such as New York and California) and so it is possible that more policies may emanate from unregulated states per capita simply because they have a wealthier population. Another possible reason we cannot fully account for is the differing age distributions between states.

The results of our study also contradict the idea that the consumer benefits more from increased regulation. In 2008, consumer value created as a percent of face was 21.72% in unregulated states and 19.84% in regulated states. While not significant, the data does suggest that consumers do receive marginally higher offers in unregulated states. Fig. 5.8 on the following page shows a breakdown of value created by state. It is important to keep in mind that these figures are subject to irregularity due to the large variance in sample sizes between states.

State	Cases	Value Created		
		Total	Average	Average as % of FV
NY	222	\$97,873,360	\$440,871	20.6%
CA	179	\$93,906,401	\$524,617	22.0%
NJ	64	\$24,062,412	\$375,975	19.0%
AZ	47	\$10,808,598	\$229,970	18.0%
OH	46	\$18,036,514	\$392,098	17.5%
IL	45	\$17,523,859	\$389,419	21.6%
CT	39	\$11,102,715	\$284,685	19.5%
FL	34	\$10,415,305	\$306,332	15.1%
PA	30	\$11,416,671	\$380,556	20.9%
TX	28	\$6,601,239	\$235,759	21.8%
DE	28	\$26,401,072	\$942,895	22.7%
MI	23	\$8,231,486	\$357,891	23.9%
KY	17	\$7,638,138	\$449,302	13.5%
MN	15	\$4,194,914	\$279,661	18.3%
MA	15	\$12,627,908	\$841,861	26.7%
NC	13	\$3,402,439	\$261,726	20.7%
GA	13	\$8,598,998	\$661,461	28.9%
OR	10	\$2,067,000	\$206,700	25.8%
MD	10	\$2,653,653	\$265,365	21.3%
CO	9	\$1,775,157	\$197,240	21.1%
MO	8	\$3,996,901	\$499,613	18.4%
WI	7	\$1,644,202	\$234,886	25.4%
VA	7	\$1,414,988	\$202,141	22.3%
IA	7	\$1,857,120	\$265,303	14.7%
WA	6	\$1,895,841	\$315,973	26.1%
UT	6	\$13,152,075	\$2,192,013	17.3%
SC	6	\$2,826,400	\$471,067	34.5%
IN	6	\$3,226,603	\$537,767	21.1%
HI	5	\$1,437,714	\$287,543	20.6%
AL	5	\$917,775	\$183,555	23.1%
LA	4	\$469,271	\$117,318	16.6%
TN	3	\$1,876,956	\$625,652	13.4%
NV	3	\$4,934,946	\$1,644,982	31.8%
AR	3	\$970,308	\$323,436	11.3%
WY	2	\$417,960	\$208,980	32.1%
RI	2	\$447,500	\$223,750	17.9%
NM	2	\$477,500	\$238,750	19.1%
KS	2	\$473,998	\$236,999	23.7%
NH	1	\$761,099	\$761,099	31.7%
MS	1	\$92,500	\$92,500	18.5%
DC	1	\$199,025	\$199,025	10.0%

Figure 5.8 - State breakdown of figure related to value creation



**Thank you to all those who contributed data to the study.**

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